CORPORATE GOVERNANCE — *PRIMARY QUESTIONS* REVISED 3/2/95

SHAREHOLDER SUITS

1. Why shouldn't we join the people suing you for concealing the addictive nature of nicotine, and for artificially pumping up your stock price? (e.g., Steiner, Florida State Board of Administration re: nicotine)

   - Lawsuits like this are often brought by plaintiffs and attorneys who expect to make money by settling.
   - We have never settled a smoking and health lawsuit, and we have no intention of settling this one.
   - We do not believe that nicotine is addictive, a position which we are making clear in a number of smoking and health matters. Clearly, we had no obligation to disclose something we do not believe to be true.

     [Cases allege securities fraud based upon our failure to disclose that cigarettes are addictive.]

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Source: https://www.industrydocuments.ucsf.edu/docs/ptbk0000

CORPORATE GOVERNANCE PRINCIPLES

2. Will the PM Board adopt the GM or TIAA-CREF principles of corporate governance?

   - For years, PM has operated on principles of corporate governance, many of which are embodied in the General Motors and TIAA-CREF principles. We are taking a closer look at formalizing and publishing our principles of corporate governance.

     [Note: Copy of our corporate governance principles will be included in the briefing book. We have not published principles although certain public fund executives are aware we have promulgated them.]

POISON PILL

3. Why did you redeem the Shareholder Rights Plan [the poison pill] issued in 1988. [Note: redemption proposal came from the Teamsters in 1993 and 1994.]

   - In the 5 years since PM adopted the rights plan, the takeover environment changed dramatically, making it unlikely that the company would be subject to the type of abusive takeover tactics the plan intended to address.
   - Redemption of the "Poison Pill" is a prudent course of action given the concern of some of our shareholders and the substantially reduced risk that PM would be the target of a coercive takeover attempt.
   - Board authorized a one-time payment to stockholders of a $.01 per common share.

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BOARD MEETINGS WITH INVESTORS

4. Do you plan to hold more meetings between Board members and investors?

   - We hold meetings with our investors to get acquainted with management and non-management members of the Board.
   - Striving for an on-going relationship that permits us to meet, talk, and answer questions.
   - Have an active investor relations group. Hoby Millington and Mike Kenny meet with investors, sometimes with senior management present.
   - Since February, Penn Holsenbeck and Al Carney met with some of our public fund investors concerning various issues.
   - We met last fall with many of our public and private fund investors.
   - You are always welcome to contact us.

5. In your view has the company's relationship with its public fund investors improved since your September 1994 debacle?

   - [Answer TK.]

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EVALUATION PROCEDURES

6. How do you formally evaluate the Chairman and the Board as a whole?

   - Nominating and Corporate Governance Committee assess the performance of the Board and makes recommendations on corporate governance matters such as the functions of the committees of the Board and the company's relations with its shareholders. All members of this committee are non-management Directors.
   - Each year, the outside Directors evaluate the Chairman, and the CEO when they are separate offices. The results are communicated to the Chairman by the Chair of the Compensation Committee. Evaluation is based on objective criteria, including performance of the business, accomplishment of long-term strategic objectives, leadership skills and development of management.

7. Mr. Bible, who evaluates your performance and what is the process by which the evaluation is conducted?

   - [Answer TK.]

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BOARD COMPENSATION

8. Will you consider paying your Board members solely in stock, as Travelers and Scott Paper are doing? Are you considering other ways of encouraging Board members to think more like owners?

   - We encourage our non-employee Directors to own PM stock because we recognize that stock ownership helps align the Directors' interests with those of other stockholders. We have been paying non-employee Directors partially with stock — worth as much as their [$26,000] annual cash retainer — since May 1990. [The most recent stock payment came to 400 shares, worth $21,600 when granted on 5/2/94. Scott Paper's payment to its Board members was 1,000 shares, worth $53,250 when granted on 7/19/94.] [Update.]
   - We consider many compensation possibilities. Each year, the Compensation Committee receives and reviews a report from Management which compares our Board's compensation to Boards at other large companies. The report also contains recommendations. The Compensation Committee suggests changes in Board compensation, but changes are approved only after full discussion with the entire Board.
   - 1995 proxy discloses stock ownership of Board members on page [TK].

9. Including committee meeting fees, what is the average compensation of outside Directors?

   - [Answer TK.]

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10. Is it appropriate for Directors to receive pensions?

- [Answer TK.]

proxy proposal

INDEPENDENT DIRECTORS

11. How many PM Board committees are comprised solely of independent Directors?

- [Answer TK.]

12. Will you consider adding more "independent" Directors, partly to replace John Richman or Paul Douglas? Will you consider someone we propose?

- We believe the majority of our Board members should be independent Directors. This excludes former or current employees of PM, as well as Directors with a personal or financial relationship with the company which could interfere with the loyalty of the Director to the shareholders.
- In principle, PM subscribes to the definition of independence used by the New York Stock Exchange. The Exchange takes the position that a Director who has a material relationship with the company — for instance as a professional advisor, consultant or legal counsel — is not independent. According to the Exchange's definition, however, customary commercial transactions, undertaken at arm's length in the ordinary course of business, are not necessarily material and do not disqualify a Director from independent status if, in the Board's discretion, the relationship would not interfere with the individual's ability to exercise independent judgment.

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- Board currently consists of 14 members, 11 are "independent" and "outside" Directors, and 3 are "inside" management Directors. While we have no current plans to expand the Board, we do look at possible candidates from time to time. It is likely that any new Director will not be a management Director.
- We believe a roster of between 12 to 18 Board members is appropriate. [FYI: the trend is toward shrinking Board sizes.]
- Proposals to add members to the Board, and the initial screening of new members, are the responsibilities of the Nominating and Corporate Governance Committee. This committee consists entirely of non-management Directors. [Harold Brown, William H. Donaldson, Jane Evans, Robert E.R. Huntley, John D. Nichols, John S. Reed.]

13. What is so wrong with a specially formulated committee of independent Directors?
    - [Answer TK.]

14. Should the company have a formally designated lead Director?
    - [Answer TK.]

JOHN RICHMAN

15. Why did John Richman resign from the Board?
    - John resigned from the Board for personal reasons.
    - Accepting John's resignation was among the actions which we took at our August 31 meeting.

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Source: https://www.industrydocuments.ucsf.edu/docs/ptbk0000

STEPHEN WOLF

16. Why is Stephen Wolf still on the Board of Directors?

- Company policy provides that a Director whose principal occupation has changed since election to the Board submit a written resignation to the Nominating Committee. The Committee then recommends appropriate action to the Board.
- However, the Board was aware of Mr. Wolf's situation at UAL at the time he became a Director.
- Upon review of the matter, it was determined that applying the policy in this instance would be inappropriate.

He remains a significant contributor

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Source: https://www.industrydocuments.ucsf.edu/docs/ptbk0000

CORPORATE GOVERNANCE — *SECONDARY QUESTIONS*

PM PROXY ACTIVISM

17. What is your proxy voting policy?

- We are in compliance with new regulations issued by the Department of Labor, and we do not plan any changes to our policy.
- We sent a letter to all equity managers, reminding them that each proxy should be voted in the best interests of PM plan participants. We believe investment managers are in the best position to evaluate the issues of each company in which they have stock.

SHAREHOLDER PROPOSAL PROCEDURES

18. What is the schedule for shareholder proposals and other matters to bring before your next annual meeting?

- [Page 24] of our 1995 proxy statement specifies: notice of a nomination or other matters to be brought before the 1996 annual meeting must be received by the Company between October 15th and November 14th, 1995. For a matter to be included in our proxy statement and proxy for the 1996 annual meeting, the company must receive notice on or before November 7th. The proxy statement provides additional details.

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Source: https://www.industrydocuments.ucsf.edu/docs/ptbk0000

SHAREHOLDER HOLDINGS

19. What is the percentage of issued common stock held by the 20 largest public pension funds?
– Which are the five (5) largest funds and how much does each hold?

    - [Answer TK.]

20. For purposes of comparison what is the percentage of issued common stock held by the 20 largest private funds?
–Which are the five (5) largest funds and how much does each hold?

    - [Answer TK.]

CORPORATE GOVERNANCE

21. What is corporate governance and why is so much attention being paid to it?

    - [Answer TK.]

22. Has the company considered hiring an expert in corporate governance?

    - [Answer TK.]

BOARD DIVERSITY

23. Do you intend to recruit more women and minorities to the Board?

    - We always look at the possibility of bringing qualified women and minorities onto the Board, and issues of diversity are among the matters we consider in recruiting new Board members. Currently, 2 Board members are women, and one is African American.

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Source: https://www.industrydocuments.ucsf.edu/docs/ptbk0000

DIRECTOR RETIREMENT

24. Why is the current Director retirement age 65 years?

- [Answer TK.]

DIRECTOR LIABILITY

25. In light of the recent court decisions holding Directors personally liable for amounts over insured limits, does the company have adequate Directors' and Officers' liability insurance?

- Company maintains insurance coverage judged to be consistent with what is being purchased by other companies based on the availability of such insurance in the market.

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Source: https://www.industrydocuments.ucsf.edu/docs/ptbk0000

SHAREHOLDER PROPOSALS

- Spin Off the Tobacco Business
  - — Mark Anthony raised issue at 1994 meeting (Q. 1).
- Report on Executive Compensation
- Economic Conversion
  - — Resolution presented by Dr. Alan Blum, physician, on behalf of the Dominican Sisters of Kentucky at the 1994 meeting. Anne Donley seconded. Ms. Donley also raised several tobacco issues (Q. 5), and asked if there was a correlation between the number of jobs lost in Richmond and the number of jobs exported to North Carolina and overseas (Q. 11). Proposal received 4.2% of the votes cast.
- Environmental Tobacco Smoke
  - — Resolution presented by Dr. Gregory Connolly, dentist and representative of the Interfaith Council on Corporate Responsibility (ICCR), at the 1994 meeting. Dr. Connolly is the proponent of this year's resolution. Edward Sweda seconded. Proposal received 5.1% of the votes cast.
- Abolish Retirement Benefits for Non-Employee Directors
- Create an Independent Directors' Committee

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Source: https://www.industrydocuments.ucsf.edu/docs/ptbk0000

WITHDRAWN SHAREHOLDER PROPOSALS

- Report on the Benefits of Cigarette Smoking
  - — Dr. Waldo Ellison, psychiatrist and proponent of the resolution, raised issue at 1994 meeting (Q. 10).
- Report on Nicotine Manipulation
  - — SEC issued a "no action" letter.
- Implement the MacBride Principles
  - — Alan G. Hevesi, Comptroller of the City of New York, is the proponent of the resolution.
- Redeem the Poison Pill
  - — Resolution presented by Ron Carver representing the Teamsters Medicare Trust for Retired Employees. The Teamsters are the proponents of this year's resolution. Karen Zelenko seconded. Proposal received 42.7% of the votes cast.
  - — 1994 Response - the matter of takeover defenses had been reviewed and that it is the company's belief that they are in the best interest of all stockholders.

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Source: https://www.industrydocuments.ucsf.edu/docs/ptbk0000